

Insight – Conversations with CalPERS Leaders

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Insight Host: Bob Burton

Guest: Joe Dear, CalPERS CIO

Bob Burton:

Welcome to “Insight”, the program designed to keep you up-to-date on CalPERS issues. I’m Bob Burton. It’s my privilege to serve as your host. We offer you Insight through conversations with CalPERS leaders and by updating those interviews, which is what we’re doing today. Our returning guest is the leader at the helm of the CalPERS investment fund: Chief Investment Officer, Joe Dear. Joe, welcome back to INSIGHT.

Joe Dear:

Good to be here, Bob.

Bob Burton:

Thank you. It’s been a while since we’ve met here, a few months now. What’s your take on the current condition of the market?

Joe Dear:

Things are getting better since I was last here. And we should be pleased about that. We’ve moved up from the trough we suffered in March 2009 and about \$160 billion dollars to just above \$200 billion dollars, which is a \$40 billion dollar improvement in the portfolio. So things are definitely better.

Bob Burton:

The last time we talked about things you were doing to adjust the fund in trying to position it for recovery. What affect do those things have so far?

Joe Dear:

Well, remember one of the things we talked about is the importance of a long horizon investor like CalPERS to stick with the plan. So one of the things we’ve done, which has worked for us, is sticking with the plan. Well, what’s the plan? About half our assets are allocated to global equities, about 20% are allocated to fixed income. We upped our allocation to private equity alternative investments and maintained our position in real estate. And then added a new cash position and are continuing to grow our inflation-linked program. Well that position in global equities is what’s helped drive the improvement in performance. So by not panicking when the markets were down and not abandoning our strategy, we’ve succeeded in riding the market up.

Bob Burton:

We read and hear a lot about market reform. Are you of the impression that there’s really an appetite out there now for continuing market reform efforts?

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Joe Dear:

Well what I'm convinced of is the necessity of accomplishing that. What I'm worried about is that memories of the crisis fade and the opponents of these changes exploit the natural suspicion of change to block any improvement in the regulatory system. The opportunity may be slipping through our fingers. Now we can't let that happen because we can't forget the consequences of the failure of the regulatory system and its contribution to the devastating losses that all investors suffered last fall. So what do we need to do? We need to strengthen the regulatory agencies and give them independence. We need regulators that have the skill that are empowered and motivated to protect the public interest, that's first. And secondly, we need to close the gaps in the regulatory system. A lot of what went wrong were products and institutions that weren't subject to regulation, at all. Think about hedge funds, certain private equity firms, that chose not to be regulated by the government, operated without the review and oversight. Secondly there were products, like over the counter derivatives, which were not regulated at all. So it was impossible for anybody to see the build up and risks that occurred from trillions of dollars of these derivatives. So these need to be brought with the regulatory system. And then we need a way to clean up when big institutions get in trouble short of gigantic taxpayer bail outs, a way to unwind these things, so we get away from the too big to fail and that we return to consequences for bad judgment. So these are very important changes that need to occur, and the pressure needs to be kept on the congress, on the white house, on policy makers, to remember that when these systems fail, it's not just investors who suffer, it's ordinary working men and women and their roles as taxpayers.

Bob Burton:

Are you seeing any progress toward actually stronger rights for shareowners like CalPERS?

Joe Dear:

Well improving shareowner rights is a critical part of this reform. Now CalPERS has always been a leader in better corporate governance. The opportunity we have now is the potential of accomplishing things we've been working on for more than 10 years in the corporate governance arena. The most important one of those is letting shareowners like CalPERS have access to the proxy, which means the ability to nominate directors for boards of corporations. Think about when the regulators fail to do their job, the next line of defense for investors is the board of a company. Well if the board is cowed by management, is offering these ridiculous pay packages to pay for failure, and they don't adequately discharge their duty as the representatives of the owners, then we need the ability to hold them accountable. And that accountability feature is what proxy access is all about. So that is a big step forward. The securities and exchange commission has a rule that would accomplish that, but we want the Congress to include that in the

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legislation that will be part of the market reform move so that SCC authority is crystal clear on this regard.

Bob Burton:

All right, thank you for sharing that. Any final thoughts you'd like to share now with the retirees out there who are counting on you for their checks?

Joe Dear:

Well, one of things I want to say is how pleased I am to be at CalPERS, how welcome I've felt, and how proud I am to be serving our beneficiaries. They need to know that the security of their benefit checks is without question. Our assets are more than sufficient to make those payments and that we're positioned for long-term growth. And our ability to earn the seven and three quarter's percent, which underlies the assumptions of financing this system over the long hall, is without question going to be done.

Bob Burton:

Joe, thank you so much for the fresh perspective, it's always a treat to get a new view from the pilot's seat. We really appreciate your time.

Joe Dear:

Thanks Bob.

Bob Burton:

You have been watching INSIGHT, conversations with CalPERS leaders. Our guest today was Joe Dear, the CalPERS Chief Investment Officer. We invite you to join us again soon for more INSIGHT.